

VZCZCXYZ0002  
RR RUEHWEB

DE RUEHLP #0080/01 0111941  
ZNR UUUUU ZZH  
R 111941Z JAN 07  
FM AMEMBASSY LA PAZ  
TO RUEHC/SECSTATE WASHDC 2057  
INFO RUEHAC/AMEMBASSY ASUNCION 6440  
RUEHBO/AMEMBASSY BOGOTA 3761  
RUEHBR/AMEMBASSY BRASILIA 7635  
RUEHBU/AMEMBASSY BUENOS AIRES 4887  
RUEHCV/AMEMBASSY CARACAS 2133  
RUEHPE/AMEMBASSY LIMA 2214  
RUEHMD/AMEMBASSY MADRID 3253  
RUEHMN/AMEMBASSY MONTEVIDEO 4328  
RUEHQT/AMEMBASSY QUITO 4770  
RUEHSG/AMEMBASSY SANTIAGO 9360  
RUEHUB/USINT HAVANA 0070  
RHMFIUU/HQ USSOUTHCOM MIAMI FL  
RUMIAAA/USCINCSO MIAMI FL  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RHEHNSC/NSC WASHINGTON DC

UNCLAS LA PAZ 000080

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR WHA/AND LPETRONI  
COMMERCE FOR JANGLIN  
TREASURY FOR SGOOCH

E.O. 12958: N/A  
TAGS: [EINV](#) [ECON](#) [PREL](#) [PGOV](#) [BL](#)  
SUBJECT: GOB RESCINDS AGUAS DEL ILLIMANI CONTRACT

-----  
SUMMARY  
-----

¶1. (SBU) On January 3, President Morales rescinded the operating contract of Aguas del Illimani, a subsidiary of France's Suez Group, and announced the creation of a new state-run enterprise to oversee the provision of water and sanitation services in La Paz and El Alto. The company's CFO said January 11 that the GOB would assume the firm's \$9.6 million outstanding debts and partially compensate shareholders for an estimated \$60 million total investment. The new public enterprise may receive funding from the European Union and Venezuela. End summary.

-----  
BACKGROUND  
-----

¶2. (U) Aguas del Illimani began operating in August 1997, after winning a 30-year concession to provide water and sanitation services in La Paz and El Alto. The firm agreed to build a water treatment plant and provide 7,000 potable water and 38,000 sanitation connections within its first five years; by March 2006, nine years into its contract, the firm had far exceeded its goals, successfully installing tens of thousands of water and sanitation connections and extending coverage to an estimated 500,000 residents.

¶3. (U) Regular protests against the firm erupted in November 2004, when the El Alto Federation of Neighborhood Committees objected to high tariffs and connection fees and demanded the company's expulsion. Demonstrations ended only after then-President Carlos Mesa issued a January 2005 decree laying the groundwork for Aguas del Illimani's dismissal. Subsequent decrees called for a comprehensive audit (which eventually absolved the firm of any contract violations) and the return of water and sanitation oversight to the state.

-----  
MORALES RESCINDS CONTRACT  
-----

¶4. (SBU) On January 3, President Morales rescinded Aguas del Illimani's operating contract and announced plans to replace the firm with a new state-run enterprise. Chief Financial Officer Ivan Flores told Econoff January 11 that the GOB acted without legal backing, as Aguas del Illimani had done nothing to trigger the contract's rescission provisions. According to Flores, the GOB tried various means of forcing the company to leave, first threatening international arbitration and then proposing that the firm leave voluntarily or simply donate its holdings to the government. Executives at Suez Group, Aguas del Illimani's parent firm, ultimately chose to leave rather than incur the costs of trying to retain operations accounting for a negligible percentage of the group's global revenues.

¶5. (SBU) Flores reported that the GOB agreed to assume the firm's \$9.6 million outstanding debts and partially compensate shareholders for an estimated \$60 million total investment. Aguas del Illimani relinquished its shares to a trust managed by the National Regional Development Fund, a public institution dedicated to financing local and regional development projects, and shareholders received low-interest GOB-issued bonds worth an estimated \$5.5 million. For shareholders, Flores said, this was "unfavorable," not only because the total value of the bonds was so small, but also because shareholders were not guaranteed the ability to trade the bonds.

¶6. (SBU) Flores acknowledged but could not confirm reports that the new public enterprise, EPSAS, may receive an estimated \$5.5 million in funding from the European Union and Venezuela. He told Econoff he had seen nothing official and said he believed Bolivian Water Minister Abel Mamani made the statements before confirming the investments.

-----  
COMMENT  
-----

¶7. (SBU) To the extent that it avoided a costly legal battle, Aguas del Illimani may have been wise in relinquishing its assets and leaving Bolivia. The conflict's outcome, however, does not bode well for other private utilities firms, which could find themselves the targets of an administration enjoying a new sense of self-confidence. End comment.  
GOLDBERG